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NATO: Meeting of Foreign Ministers

//NATO Foreign Ministers meet tomorrow and Friday to discuss arms control, force modernization, and East-West relations, but Spain will not sign the final communique.//

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Spanish Prime Minister Gonzales announced in a press conference in Madrid yesterday that Spain "will abstain with respect" because of its current review of its NATO membership. The announcement was made following the first cabinet meeting of the new Spanish Government.

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Comment: //The other Allies, except Greece, will support NATO's decision to proceed with INF modernization unless concrete results are achieved at the Geneva negotiations. Although Denmark's parliament voted yesterday to suspend its INF infrastructure payments, the Danes probably will endorse the decision.//

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//The Allies will endorse the zero option negotiating position and will pledge again to welcome all constructive Soviet proposals at Geneva. West German Foreign Minister Genscher may urge the Allies to respond to a recent report of the USSR's willingness to discuss the European conventional arms balance.//

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//The Canadians, Norwegians, Danes, and Greeks have urged moderation in dealing with the new Soviet leadership. Almost all the Allies oppose specific reference to NATO's declaration of last January that Poland has to lift martial law, release political detainees, and engage in dialogues with the Church and Solidarity before normal relations with the West can resume. The French prefer coordinating Western economic policy with the Eastern Bloc in other forums that include West European neutrals and Japan, and Paris wants language dealing with East-West economic relations deleted from the final communique.//

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//The Allies almost certainly will not ask the US to change the agreed INF negotiating position. At the same time, they will need to show flexibility at Geneva and at the MBFR and CSCE talks to undercut their domestic critics and enlist support for missile deployments scheduled for next year. They probably will react cautiously to a lifting of martial law in Poland but are likely to reassess applicability of the NATO guidelines.//

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CHAD-LIBYA: Government Reinforcements in the North

//President Habre has reinforced his northern outposts in anticipation of attacks by Libyan-backed dissidents.//

//A French official says Habre has approximately 1,500 lightly armed men in the north.

The US Embassy in Cotonou reports that dissident recruits are being flown from Benin to Libya for infiltration into northern Chad.//

//The US Embassy in Paris reports that France still has not decided to give Habre military aid. Chad received some pledges of economic aid last week at an international donors' conference in Geneva, but it did not receive much-needed budgetary support.//

Comment: Barring a direct Libyan incursion, Habre's forces probably can defend most of their northern positions against limited attacks by the dissidents and may be able to overrun some of the smaller dissident camps. The dissidents, however, are getting increasing support from Libya, while Habre continues to suffer shortages of ammunition and supplies.

Habre's small contingent of loyal northern troops in the south will have difficulty maintaining order if guerrilla activity breaks out there. The loyalty of the southern troops currently allied with Habre is likely to be divided if trouble erupts.

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USSR-FINLAND: Tikhonov's Visit

Premier Tikhonov, in his meetings with Finnish President Koivisto, will stress the new leadership's desire to maintain good relations with Helsinki but will demand cooperation in redressing the imbalance in bilateral trade.

Koivisto today is to visit the new Soviet town of Kostamuksha, just east of the Finnish border, where he and Tikhonov will inaugurate a mining complex built largely by Finnish workers. The two leaders are to proceed tomorrow to Helsinki, where Tikhonov will begin a three-day official visit. Talks are expected to focus on trade and economic cooperation, especially the problem of the large Soviet deficit in trade with Finland.

Comment: Tikhonov's visit was originally set for late November and was postponed because of Brezhnev's death, but Moscow quickly rescheduled it to demonstrate continuity in Soviet foreign policy and the desire to maintain good relations with Finland. Moscow hopes recent agreements, including one allowing the Finns to collect interest on the amount of the Soviet trade deficit, will dissuade Helsinki from trying to redress the trade imbalance by limiting exports to the USSR.

The new Soviet leaders will be no more willing than their predecessors, however, to permit any major modification of the unique Soviet-Finnish relationship. Moscow has not been pleased with the more independent tone of the government under Koivisto on some issues, and it will continue to remind the Finns of the constraints imposed by bilateral agreements on Finnish policy.

Finnish Government spokesmen, citing anticipated reductions in the price of Soviet gas to Finland, have displayed renewed interest in Soviet offers to sell additional gas by extending to the country's two largest cities a pipeline that now terminates in eastern Finland. The Soviets may urge Helsinki also to make early decisions on building a 1,000-megawatt nuclear-power plant in Finland, undertaking exploitation of mineral resources in the northeastern part of Finland, and starting other joint projects. The Finns probably would prefer to put off a decision on the still-untested Soviet nuclear reactor and have shown little enthusiasm for allowing a sizable Soviet presence in as strategically important an area as Lapland.

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SWEDEN: Evidence of Submarine Incursion

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//The Swedish Navy has discovered evidence of tampering with an underwater communications cable connecting the Swedish mainland with the naval base at Musko.// [redacted]

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// [redacted]
Swedish divers have discovered mechanical tracks on the sea floor in the immediate vicinity of the cable. While no cuts or taps have been found on the cable, it does appear in at least three places to have been lifted from the sea floor and moved up to a meter and a half from its previous position.// [redacted]

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//The Swedes conclude that the tracks, which were partially covered by sediment, were made in October by a submersible operating from a foreign submarine. They now believe the submarine was involved in tapping operations.// [redacted]

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// [redacted]
[redacted] The Navy has begun an examination of other possible sites along the Swedish coast for evidence that may explain earlier submarine activity.// [redacted]

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Comment: //While the conclusions drawn from this discovery are still speculative, they offer one plausible explanation of the numerous submarine incursions reported over the past year in Swedish waters. The tape also gives the Swedish Navy evidence with which to justify its costly and embarrassing submarine hunt in October and to support its request for funding of improvements in antisubmarine warfare.// [redacted]

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INTERNATIONAL: UN Voting on Disarmament Issues

The UN General Assembly, which today begins its annual voting on disarmament issues, is likely to pass several resolutions opposed by the US that have been overwhelmingly approved by the First Committee. These include requests for US and Soviet reports on START and INF talks, for a nuclear weapons freeze, and for a nuclear test ban. The Assembly also is to consider the committee's endorsement of proposals for a conference to strengthen the verification provisions of the ban on biological weapons, for an investigation by the Secretary General of charges of continued use of chemical weapons, and for talks on arms control in space. In Committee action, all NATO members except Greece, Denmark, and Iceland voted against the nuclear weapons freeze, and the US cast the sole vote against the test ban resolution drafted by its allies and against the Mexican resolution on START and INF. [redacted]

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Comment: The Soviets will use the disagreements between the US and its allies and the requested report on INF in their propaganda campaign to encourage further antinuclear sentiment in the West. Moscow and its followers probably will be isolated in opposition to the Swedish resolution on biological weapons. The Western resolution on the chemical weapons investigation will pass by a smaller margin because some non-aligned states believe it is a propaganda ploy. [redacted]

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FRANCE-ARGENTINA: Shipment of Naval Aircraft

//Four more Super Etendard naval aircraft are being shipped to Argentina from France, according to press reports.

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Press reports say that some 50 tons of munitions and spare parts are included in the latest shipment.//

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Comment:

The new Super Etendards have strengthened Argentina's naval air force. Even so, targets in the Falkland Islands remain at the far reaches of the Super Etendard's unrefueled combat range, and the British have substantially improved the islands' air defenses.//

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IRAN: Election of Assembly of Experts

An election will be held on Friday for an Assembly of Experts that will have the power to choose Ayatollah Khomeini's successor. The 83-man Assembly will have an eight-year term. Qualifications for membership include expertise on Shia law and loyalty to the Islamic republic. Iranian leaders have stressed that the election is a precautionary measure unrelated to Khomeini's health and that it probably will not result in the selection of a successor any time soon.

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Comment: The ruling clerics are trying to institutionalize the succession process and further consolidate the revolution. The Assembly probably will include the most senior clerics and top government leaders. It can choose either a single successor or a council of three or five clerics, but lack of consensus among the clerics suggests a council is the more likely choice.

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Special Analysis

POLAND: Prospects for Servicing Debt

//The decline of the Polish economy apparently has been stopped, but recovery is not likely any time soon because of the burden of the hard currency debt. The Poles signed a rescheduling agreement with private banks in November, but foreign government creditors have not rescheduled the debt for 1982, and overdue payments of at least \$5 billion are likely at the end of the year. If martial law is lifted this month as anticipated, the Poles are certain to urge Western governments to lift sanctions and begin debt relief discussions. Poland almost certainly will not be able to obtain the nearly \$12 billion worth of debt relief and new credits it needs in 1983.// [redacted]

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Warsaw has been forced to run a trade surplus this year to try to pay interest owed to Western banks. Preliminary Polish data show that exports in the first 10 months of 1982 were equal to the pace in 1981 but that imports were down 28 percent. The trade surplus, however, meets only a small part of Warsaw's large financial needs. [redacted]

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The reductions in imports have hindered economic recovery. Grain imports have been slashed, leading to declines in livestock production. Manufacturing industries have been hurt by shortages of imported spare parts and raw materials. [redacted]

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Status of Rescheduling

//On 3 November Western banks and the Polish Government signed an agreement to reschedule 95 percent of principal payments due to private banks in 1982. The agreement calls for the remaining 5 percent of principal to be paid next year and for interest payments of \$1.1 billion originally due in 1982 to be paid in three installments on 19 November and 20 December 1982 and on 20 March 1983.// [redacted]

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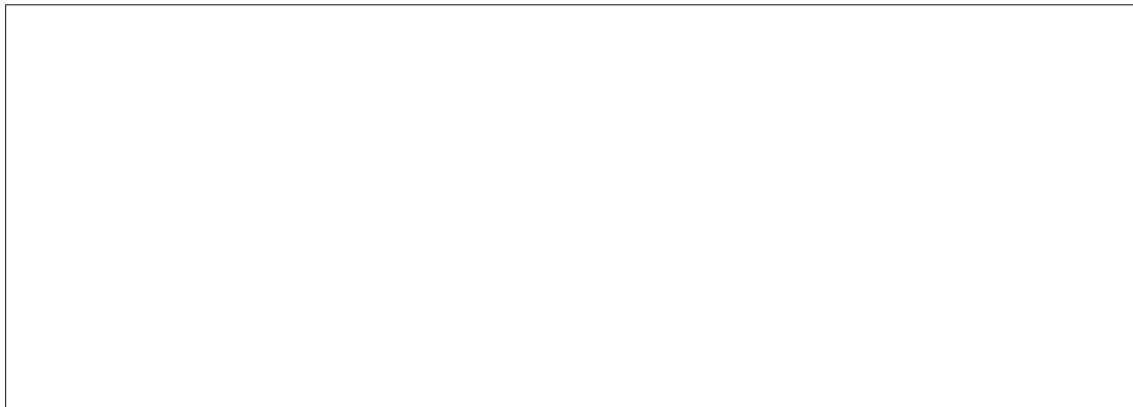
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Although Warsaw's financial condition has continued to deteriorate and overdue debts have soared, relations between the Poles and the bankers are somewhat smoother than earlier in the year. Polish officials who argued for a moratorium on Poland's debt seem to have lost influence, and threats by Western bankers to declare Polish loans in default have subsided. There are widespread reports, however, that banks in several Western countries are quietly and gradually writing off their Polish loans. [redacted]

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The Poles now face a financial gap in 1982 of as much as \$6.7 billion, most of which is unrescheduled payments owed to Western governments and to CEMA creditors, Arab banks, Brazil, and suppliers. Debt relief from these creditors may cover \$1 billion to \$2 billion, but the gap probably will still be about \$5 billion at the end of 1983. [redacted]

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Debt to Western Governments

Warsaw will owe Western governments \$7 billion next year, including unpaid debts due this year, and, in anticipation of the lifting of martial law, pressure already is building to open debt relief talks. Sweden, Austria, and Switzerland announced to the Paris Club last week that they were considering splitting from the other creditors to begin such discussions. [redacted]

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//Some West European governments argued earlier this year that the West should respond favorably to small steps by Warsaw to ease martial law restrictions. Most West European allies probably will push for rescheduling

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after the end of martial law--even if NATO's conditions for the lifting of martial law, the release of internees, and the opening of discussions with Solidarity and the church are not met completely.// [redacted]

If the creditor governments decide to resume re-scheduling negotiations with the Poles, both sides will start far apart. Warsaw's anticipated request for total debt relief will be a first step in its efforts to secure resumption of large Western credits to revive the Polish economy. The governments, on the other hand, are primarily interested in getting Poland to make debt payments. [redacted]

//Both sides are likely to be disappointed. Even before martial law, Western governments had stopped providing new money. Moreover, they will be competing with the banks for what promises to be a very limited amount of hard currency available for debt service.// [redacted]

Outlook for 1983

//More than \$13 billion in debt service is due next year. This includes:

- \$4.4 billion in arrears from 1982.
- \$5 billion in principal payments on medium- and long-term loans under original loan contracts.
- About \$4 billion in interest, including charges on rescheduling agreements.// [redacted]

//Assuming industrial production does not slump further, a current account surplus--excluding interest--of \$1.4 billion is possible, leaving a financing requirement of \$11.7 billion. Since the outlook remains poor for new credits, however, the financing requirement for 1983 will have to be covered by debt relief, whether under formal agreements or by creditors' continued tolerance of overdue payments.// [redacted]

//The Poles indicated to the banks last month that they want total debt relief next year--rescheduling of all principal payments and the recycling of all interest paid into new short-term credits. The banks immediately rejected the terms.// [redacted]

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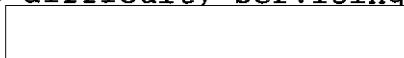
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//According to other reports, the Poles may ask to renegotiate the repayment schedule for obligations due over the next three years. Serious discussions will not begin until after the first of the year. Negotiations then may be complicated by the failure to honor past agreements. Warsaw this year has met payments called for under the agreement of 1981 more or less on time but will have difficulty servicing two such agreements next year.//



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